Republican Policy Committee
John Shadegg, Chairman
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EXPANDING TRADE: GOOD for the U.S. ECONOMY

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The Central American – Dominican Republic Free Trade Agreement (CAFTA) reduces barriers to trade between the U.S. and other nations in the Western Hemisphere: The Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The trade pact would expand the market for American goods and add jobs to the economy.

TRADE AND THE AMERICAN ECONOMY

Increased access to foreign markets for U.S. producers has – time after time – led to faster growth and greater economic success for the United States. In the first year of a free trade agreement with Chile, U.S. exports grew 33.5 percent. Immediately following a trade agreement with Singapore, exports to that country increased 18 percent, and the American trade surplus *tripled* in size. The U.S. trade surplus with Australia rose 12 percent in the first quarter of 2005, following a new trade pact. The gains were distributed across a number of economic sectors, including agriculture. In the 10 years after NAFTA passed, U.S. exports to Canada and Mexico grew from $142 billion to $263 billion.

U.S. companies already sell more goods and services to CAFTA nations than to Russia, India and Indonesia combined. Because 80 percent of Central America's goods and services already enter the United States duty-free, the primary effect of the agreement will be to open Central America to even more U.S. goods and services. Currently, Central American nations charge duties up to 11.1 percent on imports of U.S. industrial goods and up to 19.5 percent on imports of agricultural goods.

The potential economic gain for the United States is significant. Farm exports could expand as much as $1.5 billion a year, and manufacturing exports could expand by $1 billion. Studies have also estimated that CAFTA will reduce the overall U.S. trade deficit by $756 million.

TRADE-SENSITIVE SECTORS

There are concerns about CAFTA's effect on agriculture and textiles. These are real and substantial issues, but the trade accord does make some provision for them.

CAFTA requires nations to eliminate export subsidies on agricultural goods. A nation may, however, maintain a subsidy if it believes a third country is subsidizing exports of that commodity to the importing nation.

Sugar is one commodity that may complicate congressional approval of CAFTA because Central America produces large amounts of it. The agreement raises U.S. quotas on sugar imports from CAFTA countries 50 percent in the first 15 years, but contains features designed to give the United States the ability to address imports over this quota. The United States will continue to maintain duties of 78 percent on amounts over the quota, and the agreement allows alternative forms of compensation in lieu of sugar imports.

Lower labor costs in Central America are a concern for the U.S. textile industry. In the face of increased competition from China and other nations, however, it is important to note that upon passage of CAFTA more than 90 percent of all apparel made in the region will be sewn from fabric and yarn made in the United States. Under CAFTA, garments manufactured in Central America would be duty-free and quota-free only if they use fabrics and yarn from the United States. That should stimulate U.S. fabric and yarn exports, and may help the U.S. and Central American nations compete with the rising competitive challenge from Asian textile manufacturers.

MAJOR PROVISIONS

Increased Market Access

- CAFTA requires that each member nation eliminate customs duties on goods and services imported from member nations. Most tariffs would be eliminated immediately, while others would be phased out over 10 years. The agreement also prevents nations from imposing new or expanding existing duty waivers.
- The agreement immediately opens the market by eliminating duties on U.S. exports to the region.

Environmental Protections

- While recognizing each nation's right to enact and administer its own environmental laws, it commits each to enforce those laws. CAFTA goes further than other recent trade agreements by providing a mechanism for members of the public to assert that a nation has violated its environmental laws and to request environmental experts to review those allegations.

Labor Force Protections

- The agreement commits each party to effectively enforce its labor laws. These include the right to organize and bargain collectively, prohibitions of forced or compulsory labor, minimum ages for child labor and the elimination of egregious child labor laws, and guarantees of minimally-acceptable working conditions. Each party also agrees to provide means by which to remedy violations of labor laws.